

## Message Text

UNCLASSIFIED

PAGE 01 TAIPEI 01835 01 OF 02 280616Z  
ACTION EA-12

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R 280508Z MAR 78  
FM AMEMBASSY TAIPEI  
TO USDOC WASHDC  
INFO SECSTATE WASHDC 6868

UNCLAS SECTION 01 OF 02 TAIPEI 01835

COMMERCE FOR ITA/BED/OIM/EA-KELLY AND MURRAY  
ALSO FOR OED/SIPS-HARDISTY

E.O. 11652: N/A  
TAGS: BEXP, ELEC, TW  
SUBJECT: PRODUCT OPPORTUNITY - ELECTRONIC BANKING SYSTEMS

REF: A) USDOC 02828 B) TAIPEI 1510

SUMMARY: RECENT DEVELOPMENTS HAVE CLARIFIED PRESENT SITUATION REGARDING THIS PRODUCT OPPORTUNITY, WHICH IS STILL VERY MUCH ALIVE. THE TAIWAN BANKING COMMUNITY IS NOW RESEARCHING THIS TOPIC, AND PROPOSES TO SEND A STUDY MISSION (RATHER THAN A PURCHASING MISSION) TO THE UNITED STATES IN JUNE/JULY 1978. IN VIEW OF THIS DEVELOPMENT, THE EMBASSY RECOMMENDS POSTPONEMENT OF PROPOSED IOGA ELECTRONIC BANKING TRADE MISSION. END SUMMARY

1. FINANCE MINISTRY MONETARY DEPARTMENT HEAD RICHARD CHI, IN CONVERSATION WITH COMMERCE OIM/EA COUNTRY MARKETING MANAGER AND COMOFF, REVIEWED PRESENT STATUS OF PROPOSED ELECTRONIC BANKING PROJECT. AT PRESENT, THE MEMBER BANKS OF THE TAIWAN BANKERS' ASSOCIATION BANKING AUTOMATION SUBCOMMITTEE HAVE AGREED TO PREPARE VOLUNTARILY RESEARCH PAPERS ON SIX TOPICS, LISTED BELOW:

UNCLASSIFIED

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PAGE 02 TAIPEI 01835 01 OF 02 280616Z

- (1) THE FUNCTIONS OF TELLER TERMINALS AND THEIR COORDINATION WITH PRESENT BANKING OPERATIONS;
- (2) ESTABLISHMENT OF A "MODEL ELECTRONIC BANK";
- (3) COORDINATION OF OTHER BANKING MACHINES (BILL AND COIN COUNTING, AND NOTE RECORDING MACHINES, ETC.) WITH PRESENT BANK ACCOUNTING PROCEDURES;
- (4) UTILIZATION OF BANKING MACHINES TO STRENGTHEN INTERNAL

AUDITING CONTROL;

(5) APPLICABILITY AND ECONOMY OF IN-HOUSE ON-LINE BANKING OPERATIONS;

(6) DEVELOPMENT TRENDS IN BANKING AUTOMATION.

2. THE SUBCOMMITTEE EXPECTS TO FINISH THE RESEARCH PROJECT AROUND LATE APRIL. (AS REPORTED REFTEL B, EMBASSY WILL FORWARD SIGNIFICANT STUDY RESULTS TO WASHINGTON.) FOLLOWING THE STUDY'S COMPLETION, CHI LOOKS TO THIS GROUP TO WRITE A JOB DESCRIPTION FOR AN AMERICAN CONSULTING FIRM TO ADVISE PRIMARILY ON SOFTWARE APPLICATIONS PACKAGES AVAILABLE AND APPROPRIATE TO TAIWAN'S NEEDS. IN JUNE/JULY THE AUTOMATION SUBCOMMITTEE TENTATIVELY PLANS TO TRAVEL TO THE UNITED STATES TO OBSERVE BANKING OPERATIONS, VISIT U.S. MANUFACTURERS, AND PROBABLY INTERVIEW CONSULTING FIRMS.

3. CHI'S ULTIMATE GOAL STILL REMAINS TO ESTABLISH AN ISLAND-WIDE CENTRALIZED ELECTRONIC BANKING DATA PROCESSING SYSTEM FOR ALL OF TAIWAN'S BANKS. HE BELIEVES THAT THIS SYSTEM WOULD INTRODUCE ECONOMIES OF SCALE AND SPREAD THE FINANCIAL BURDEN OVER MANY BANKS, THUS FACILITATING THE SMALLER BANKS' PARTICIPATION. SOME INFLUENTIAL BANKING OFFICIALS HAVE PRIVATELY EXPRESSED CONCERN TO COMOFF ABOUT THE ABILITY TO MAINTAIN CONFIDENTIALITY OF CLIENT RECORDS IN A CENTRALIZED SYSTEM, BUT CHI REPLIES THAT SOFTWARE UNCLASSIFIED

UNCLASSIFIED

PAGE 03 TAIPEI 01835 01 OF 02 280616Z

SHOULD PREVENT UNAUTHORIZED ACCESS. FURTHER, HE POINTS OUT THAT ALL THE BANKS ARE GOVERNMENT OWNED, AND SO HE BELIEVE THAT PRIVACY SHOULD NOT BE SUCH A SERIOUS CONSIDERATION AS IN OTHER COUNTRIES WITH COMPETING PRIVATE BANKS. FULL RESOLUTION OF THIS ISSUE MAY TAKE SOME TIME AND FURTHER DISCUSSION.

4. CHI'S MINIMUM GOAL IS TO HARMONIZE THE FUTURE DEVELOPMENT OF BANKING AUTOMATION INCLUDING THE ADOPTION OF IDENTICAL OR COMPATIBLE SOFTWARE AND HARDWARE TO REDUCE SYSTEMS ANALYSIS, PROGRAM DEVELOPMENT, AND PERSONNEL TRAINING COSTS. CHI FAULTS PRESENT AUTOMATION EFFORTS FOR SLOW IMPLEMENTATION AND AN ERROR RATE THREE TIMES THE U.S. AVERAGE. AMONG ALL LOCAL BANKS, THE BANK OF TAIWAN (BOT) IS THE MOST ADVANCED IN COMPUTERIZATION OF BANKING OPERATIONS. IT ESTABLISHED ITS AUTOMATION DEPARTMENT IN 1970, AND ACQUIRED AN IBM 370/135 IN 1974. AS THE FIRST STEP IN A PROPOSED FIVE PHASE MASTER PLAN, IN 1975 THE BOT INSTALLED IBM MODEL 5930 ON-LINE REAL-TIME TERMINALS IN 19 BRANCHES IN THE GREATER TAIPEI AREA TO RECEIVE CHECKING AND SAVINGS ACCOUNTS DEPOSITS. IF APPROVED BY THE GOVERNMENT AUTHORITIES, THE SECOND

PHASE WOULD OVER THE NEXT SEVERAL YEARS PLACE ON-LINE TERMINALS IN THE BOT'S 35 OTHER BRANCHES. THE THIRD PHASE REMITTANCES, AND FOREIGN EXCHANGE TRANSACTIONS, INTO THE SYSTEM. THE FOURTH PHASE WOULD BUILD-UP AN INTEGRATED' DATA BASE CALLED A "CUSTOMER INFORMATION FILE" TO ASSIST LOAN OFFICERS. THE FIFTH PHASE WOULD SET UP A "MANAGEMENT INFORMATION SYSTEM" TO ASSIST THE BANK'S OPERATIONS ANALYSIS AND DECISION MAKING.

5. OTHER TAIWANESE BANKS HAVE ALSO PURCHASED COMPUTERS,

UNCLASSIFIED

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PAGE 01 TAIPEI 01835 02 OF 02 280550Z

ACTION EA-12

INFO OCT-01 EB-08 ISO-00 /021 W

-----009714 280633Z /10

R 280508Z MAR 78

FM AMEMBASSY TAIPEI

TO USDOC WASHDC

INFO SECSTATE WASHDC 6869

UNCLAS SECTION 02 OF 02 TAIPEI 01835

INCLUDING IBM 370/135 AND 370/115, NCR 250, FACOM 25, SINGER 5800, AND BURROUGH TCS 1000 MODELS. (FYI AT THIS POINT BOTH THE AUTOMATION SUBCOMMITTEE AND RICHARD CHI DISPLAY GREATER INTEREST IN EXPLORING A DECENTRALIZED &"FREE STANDING TERMINAL" BATCH-PROCESSING SYSTEM, RATHER THAN A CENTRALIZED ON-LINE REAL-TIME SYSTEM THOUGH NO HARD DECISIONS HAVE YET BEEN MADE.)

6. COMMENT: THESE RECENT DEVELOPMENTS HAVE REFINED THINKING HERE SOMEWHAT, AND HAVE REVEALED BOTH WIDESPREAD AGREEMENT ON THE NEED FOR A MODERN ELECTRONIC BANKING SYSTEM, AND ALSO SOME DIVERGENCE OF VIEWS BETWEEN THE FINANCE MINISTRY AND THE GOVERNMENT AUTOMATION EXPERTS THE EMBASSY HAS CONTACTED ON HOW AND WHEN. CHI'S ROLE IS INFLUENTIAL THROUGH HIS VETO POWER OVER PURCHASES OF IMPORTED BANKING EQUIPMENT, BUT OTHER FACTORS WILL ALSO IMPINGE ON THE FINAL DECISION.

7. IN VIEW OF THE AUTOMATION SUBCOMMITTEE'S ONGOING RESEARCH PROJECT, AND THE PROPOSAL TO SEND A STUDY MISSION TO THE U.S. IN JUNE, THE EMBASSY RECOMMENDS POSTPONING THE MAY 8-L2 C.C.I.A. SPONSORED ELECTRONIC

BANKING IOGA TRADE MISSION UNTIL A LATER DATE. AFTER  
THE TAIWAN STUDY MISSION HAS VISITED THE U.S., AND THE  
AMERICAN CONSULTANT FINISHES HIS REPORT, A MORE PRECISE  
INDICATION OF THE TAIWAN BANKING COMMUNITY'S SOFTWARE  
UNCLASSIFIED

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PAGE 02 TAIPEI 01835 02 OF 02 280550Z

AND HARDWARE NEEDS CAN BE DETERMINED.

8. EMBASSY WILL ADVISE WASHINGTON OF FINANCE VICE MINISTER  
HSU'S AND RICHARD CHI'S SCHEDULE OF TRAVEL IN THE UNITED  
STATES (PER REFTEL B). FURTHER, WE WILL CONTINUE TO WORK  
WITH THE TBA TO ORGANIZE A FOREIGN BUYERS PROGRAM-TYPE  
INTENSIVE STUDY MISSION TO THE UNITED STATES. UNGER

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